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Reg. No. | | | | | | | | |

## II Semester M.B.A (Day & Eve.) Degree Examination, December - 2023

## MANAGEMENT

## Financial Management

## (CBCS Scheme 2019 Onwards )

## Paper : 2.5

**Time : 3 Hours** **Maximum Marks : 70**

### SECTION - A

**Answer any Five questions from the following. Each question carries 5 marks.**

**(5×5=25)**

1. Identify the various types of decisions which are to taken by a financial manager in the emerging business scenario.
2. Explain the components of time value of money.
3. What are the factors influencing dividend policy.
4. Calculate equated installment and prepare loan repayment schedule from the following details:
   a) Loan Amount: Rs.10,00,000
   b) Rate of Interest: 10% per annum
   c) Period of Loan: 5 years
   d) Installment payable: Annually
5. A company is the tax bracket of 35%. Calculate cost of debt under following two circumstances:
   a) Perpetual bond of Rs.100 each numbering 1000, coupon rate being 7%.
   b) 1000, 8% redeemable bonds of Rs.100 each redeemable after 10 years, sold at 10% Discount, less 4% under writing commission.
6. The following are the operating results of a firm

| | |
|---|---|
| Sales (in units) | 25,000 |
| Interest per annum | Rs.30,000 |
| Selling Price per unit | Rs.24 per unit |
| Tax rate | 35% |
| Variable cost per unit | Rs.16 per unit |
| No of Equity shares | 10,000 |
| Fixed cost per annum | Rs.80,000 |

Compute:

i) Financial Leverage,

ii) Operating Leverage and

iii) Combined Leverage

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7. Details regarding three companies are given below:

| A Ltd. | B Ltd. |
|---|---|
| r=14% | r=11% |
| $K_e$=9% | $K_e$=9% |
| E=Rs.9 | E=Rs.9 |

By using Walter's model, you are required to calculate the value of an equity share of each of these companies when dividend payout ratio is 0%, 20% and 40%. Comment on the result drawn.

## SECTION - B

**Answer any Three questions from the following. Each question carries 10 marks. (3×10=30)**

8. Critically examine the 'Net Income and Net Operating Income Approaches on capital structure.

9. Harish Ltd. Company has 2,00,000 equity shares of Rs.20 each, 1,00,000, 6% preference shares of Rs.10 each and 30,000, 8% debentures of Rs.10 each and 30,000, 8% debentures of Rs.100 each. Outstanding on 31st March 2023. The market price of the company's equity share is Rs.20. It is expected that the company will pay a dividend of Rs.2 per share which is expected to grow at 7% forever. The company is liable for tax at 35%.

   a) Calculate the weighted average cost of capital for the existing capital structure

   b) Company is thinking of an additional project at a cost of Rs.20,00,000 to be raised by issuing 12% debentures. This would result in increasing the expected dividend to Rs.3 and the share price would fall to Rs.15 per share. What will be the revised WACC?

   c) Instead of 7% growth rate, If 11% is taken, what would be the WACC?

10. NSS Company currently has an equity share capital outstanding of Rs.50,00,000 consisting 5,00,000 shares of Rs.10 each. The management is planning to raise another Rs.40,00,000 in order to invest on a major expansion program. Following are the four possible financing plans:

    a) Entirely through issue of equity shares.

    b) 50% of the requirement through issue of equity shares and remaining 50% through long term borrowings at 8% interest per annum.

    c) 25% through equity shares and 75% through 9% debentures.

    d) 50% through equity shares and 50% through 5% preference shares.

    The company's EBIT expected to be Rs.16,00,000 and Corporate Tax is 35%. Determine the EPS in each alternative and comment on the implications of financial leverage.

11. The board of directors of ABC Engineering Company Ltd. Request you to prepare a statement showing working capital requirements for a level of activity of 1,85,000 units of production. The following information is available for your calculation.

| Particulars | Amount/Unit |
|---|---|
| Raw Materials | 80 |
| Direct Labor | 30 |
| Overheads | 65 |
| Finished Goods | 195 |
| Profits | 50 |
| Total Selling Price/Unit | 245 |

**Additional Information:**

a) Raw Materials are in stock an average of One month.

b) Materials are in process an average of Two weeks.

c) Finished Goods are in stock an average of One month.

d) Credit allowed by suppliers One month.

e) Time lag in payment from debtors Two months.

f) Average time lag in overheads is One month.

g) Average time lag in wages is 1.5 weeks.

h) 20% of the output is sold against cash.

i) Cash in hand is expected to be Rs.60,000. It is to be assumed that production is carried on evenly throughout the year. Wages and overheads occurred similarly and a time period of Four weeks is equivalent to a month.

## SECTION - C

12. **Compulsory Case Study:** **(1×15=15)**

Joy Ltd., is considering investing in a project that costs Rs.10,00,000. The estimated salvage value is zero; tax rate is 35 percent. The company uses straight line depreciation for tax purposes and the proposed project has Cash Flows Before Tax (CFBT) as follows:

| Year | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| CFBT (Rs.) | 2,50,000 | 3,00,000 | 4,50,000 | 5,50,000 | 7,00,000 |

Determine the following:

a) Payback period

b) Average rate of return

c) NPV at 10% required rate of return

d) IRR, and

e) PI at 10% required rate of return

Suggest the company whether it should accept this or not with necessary working notes assuming standard payback period of 3 years and minimum rate of return of 12%.